Supreme Court, U.S.
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No. _____

In the
Supreme Court of the United States
October Term, 1994

NLFC, Inc.,

Petitioner,

vs.

Devcom Mid-America, Inc.,

Respondent.

Petition for Writ of Certiorari
to the United States Court of Appeals
for the Seventh Circuit

Appendix to
Petition for Writ of Certiorari

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IN THE UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT

No. 94-1150

NLFC, Incorporated,

Plaintiff-Appellant,

v.

Devcom Mid-America, Incorporated,

Defendant-Appellee.

Appeal from the United States District Court
for the Northern District of Illinois, Eastern Division.
No. 93 609 - George W. Lindberg, Judge.

Argued September 19, 1994—Decided January 19, 1995

Before BAUER and MANION, Circuit Judges, and GRANT, District Judge.*

MANION, Circuit Judge. NLFC, Inc. ("NLFC") appeals a grant of summary judgment in favor of Devcom Mid-America, Inc. ("Devcom"). NLFC filed suit in federal district court against Devcom alleging federal copyright

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* Hon. Robert A. Grant, District Judge for the United States District Court, Northern District of Indiana, is sitting by designation.

infringement (Count I). In addition, NLFC asserted three claims under Illinois law for misappropriation of trade secrets, tortious interference with contract, and unfair competition (Counts II-IV). The district court found that no genuine issue of material fact existed regarding the copyright infringement claim and granted summary judgment in favor of Devcom. The court then dismissed the remaining state law claims. We affirm.

I. Background

NLFC owns the copyright to a computer program (the "NLFC software") designed for use in medical pathology laboratories.[1] Two medical facilities, Cabrini Medical Center ("Cabrini") and Franciscan Shared Laboratory ("FSL") (collectively "the labs"), contracted for the purchase and use of this software as part of computerized patient information systems installed in their labs. The software, however, contained many bugs (among other assorted problems) and the labs experienced great difficulty with NLFC in getting the program up and running. The difficulty was apparently so great that FSL sued NLFC and obtained, as part of a settlement agreement, the ability to "obtain maintenance and support

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[1]The software at issue in this case was originally developed by a Texas corporation known as Lab Force, Inc. The rights to this software were acquired by NLFC after Lab Force declared bankruptcy. Both corporations contributed to the development of the software and entered into agreements with purchasers at various times concerning the software. For the purposes of this opinion both Lab Force and NLFC will be collectively referred to as NLFC.

services from whatever source FSL deems necessary."[2] Toward that end, FSL contracted with Devcom, an outside consulting firm located in Oak-brook, Illinois, to "remove[] the bugs in the NLFC Software and to enable the NLFC Software to be run on the Clients' computers."[3] Devcom's work for FSL was so successful that FSL recommended its services to Cabrini, who was having similar problems getting its system running. Devcom performed the work for both labs using dedicated telephone lines, dumb terminals, and on-site efforts. In order to assist them in making the necessary changes, a viewable copy of the source codes to the NLFC software (more on this later) was printed at Devcom's offices. Alter completing the work, Devcom sent a letter marketing its newly-acquired expertise to other labs using the NLFC software.

After discovering that Devcom had been retained to fix its software, NLFC filed this lawsuit alleging that Devcom copied the software in violation of its copyright. NLFC also alleged that Devcom illegally marketed the NLFC software through the letter that it sent to other NLFC software users. After reviewing the record, the district court granted summary judgment in favor of Devcom and dismissed the three state law claims.

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[2]This settlement agreement was entered into on November 9, 1989 and was amended on July 6, 1990. The references to outside maintenance and support services, however, are substantially the same.

[3]Affidavit of Ronald G. Diener, President of Devcom Mid-America, Inc.

II. Analysis

NLFC first challenges the district court's grant of summary judgment on its copyright infringement claim. We review a grant of summary judgment *de novo*. *Deutsch v. Burlington N. R. Co.*, 983 F.2d 741, 743 (7th Cir.), *cert. denied*, 113 S. Ct. 1845 (1993). Summary judgment is proper only if the moving party demonstrates that there is no genuine issue of material fact and that it is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c); *Bourne Co. v. Hunter Country Club, Inc.*, 990 F.2d 934, 938 (7th Cir.), *cert. denied*, 114 S.Ct. 308 (1993). When determining if a genuine issue of material fact exists, all facts must be construed in the light most favorable to the party opposing the motion and the court must draw all inferences in favor of that party. *Smart v. State Farm Ins. Co.*, 868 F.2d 929, 931 (7th Cir. 1989). The moving party bears the initial burden of demonstrating that no genuine issue of material fact exists. *Celotex C. v. Catrett*, 477 U.S. 317, 323 (1986). After the moving party makes this initial showing, the burden shifts to the party opposing summary judgment to present specific facts demonstrating a genuine issue for trial. *Id.* at 324; *Becker v. Tenenbaum-Hill Assoc., Inc.*, 914 F.2d 107, 110 (7th Cir. 1990).[4]

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[4]NLFC also alleges in this case that the district court erred in concluding that its Local Rule 12(n) statement contained no material evidence opposing Devcom's summary judgment motion and therefore erred in admitting Devcom's Local Rule 12(m) statement as uncontroverted evidence. Local Rule 12(n) requires that the party opposing a motion for summary judgment supply additional material facts to the court and further states that "all material facts set forth in the statement required

Under section 106 of the Copyright Act, the owner of a copyright is given the exclusive right to (among other things) reproduce the work in copies, prepare derivative works based on the copyrighted work, and distribute copies of the work to the public. 17 U.S.C. § 106; *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 258 (5th Cir. 1988). Section 501(a) provides that "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . is an infringer of the copyright . . ." 17 U.S.C. § 501(a).

Among the works protected under § 106 of the Act are computer programs. *Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832, 838 (Fed. Cir. 1992) (as literary works, copyright protection extends to computer programs). A "computer program" is defined in § 101 of the Act as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result." These instructions take at least two forms. The first, the source code, is a set of "human readable" instructions to the computer in computer languages such as BASIC and FORTRAN. *Johnson Controls*

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of the moving party will be deemed to be admitted unless controverted by the statement of the opposing party." *See Capitol Converting Equipment, Inc. v. LEP Transport, Inc.*, 965 F.2d 391, 394 (7th Cir. 1992). Instead of identifying specific disputed facts, however, NLFC merely asserted a series of allegations, legal conclusions, and questionable characterizations of the record. This court has consistently upheld a strict application of Local Rule 12, *id.*, and we do so here as well. The district court did not err in admitting Devcom's Rule 12(m) statement as uncontroverted evidence in this case.

Inc. v. Phoenix Control Systems, Inc., 886 F.2d 1173, 1175 and n.2 (9th Cir. 1989). A computer program also uses an object code. This is the same set of instructions, but in binary code: the presence or absence of an electrical charge, which may be represented by a series of 1's and 0's, at each cycle of a computer's operation that ultimately direct the computer's activity. *Id.; Midway Mfg. Co. v. Strohon*, 564 F.Supp. 741, 750 (N.D. Ill. 1983). Computers do not act directly on source code instructions, but rather transform them into object code within the machine. *Midway Mfg. Co.*, 564 F.Supp. at 750. Both the source and object codes to computer software are also individually subject to copyright protection. *Johnson Controls*, 886 F.2d at 1175; *Midway Mfg. Co.*, 564 F. Supp. at 750-51.

In this case, NLFC contends that the district court erred in holding, as a matter of law, that its exclusive rights to the NLFC software under § 106 were not violated. Specifically, NLFC claims that the evidence presented below shows that Devcom violated its rights in two ways: (1) that Devcom, in the process of its activities on behalf of Cabrini and FSL, copied the NLFC software onto its in-house computer system, and (2) that Devcom illegally marketed the NLFC software as modified. We address each allegation in order.

First, NLFC alleges that the district court erred in finding that Devcom had not copied the NLFC software onto its in-house computers. Neither party disputes that loading software into a computer constitutes the creation of a copy under the Copyright Act. *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 (9th Cir. 1993), *cert. dismissed*, 114 S.Ct. 671 (1994); *Vault Corp.*, 847 F.2d at 260 ("the act of loading a program from a medium of storage into a computer's memory creates a copy of the

program"); 2 *Nimmer on Copyright*, § 8.08[A] (1994) (computer input constitutes the making of a "copy"). Rather, the dispute in this case centers on whether NLFC presented evidence from which a reasonable juror could conclude that such copying took place.[5] Devcom of course was under no duty to negate NLFC's claims in this case. *Celotex Corp.*, 477 U.S. at 323 (while party seeking summary judgment always bears the initial responsibility of informing the district court of the basis for its motion and identifying those portions of the record, if any, which it

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[5]Even if such a copying could be demonstrated in this case, we are convinced that Devcom's activities were permissible under the agreements entered into between NLFC and the labs. *See MAI Systems Corp.*, 991 F.2d at 517 (to prevail on a claim of copyright infringement, a plaintiff must prove ownership of a copyright and a copying of protectable expression "beyond the scope of a license"). To illustrate, the agreement entered into between NLFC and Cabrini (the "Cabrini Agreement") allowed Cabrini to copy the NLFC software "as reasonably necessary for licensed use" and also allowed Cabrini to modify, update, enhance, and maintain the software using the source codes provided by NLFC. *See* Cabrini Agreement ¶¶6.2.2, 6.2.4, 6.2.7. The Agreement also expressly contemplated that Cabrini's agents and employees (under the control of Cabrini) may perform this work on behalf of the lab. *See* Cabrini Agreement ¶6.2.5. The settlement agreement entered into between NLFC and FSL similarly authorized FSL to obtain "maintenance and support services from whatever source FSL deems necessary." While our disposition of this case ultimately makes this analysis unnecessary, we mention it here for the sake of completeness.

believes demonstrates the absence of a genuine issue of material fact, there is nothing in Rule 56 that requires a moving party to negate an essential element of an opponent's claim for which it bears the ultimate burden at trial). Instead, NLFC bore the burden, as the party opposing the motion, of coming forward with affirmative evidence proving its allegation (in this case, that Devcom did in fact illegally copy the NLFC software onto its computers). And, of course, that inference must be "reasonable in light of the competing inferences." *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Co.*, 475 U.S. 574, 588 (1986). "I[fl the factual context renders the claims asserted by the party opposing summary judgment implausible, the party must 'come forward with more persuasive evidence to support their claim than would otherwise be necessary.'" *McDonnell v. Cournia*, 990 F.2d 963, 967(7th Cir. 1993) (quoting *Matsushita*, 475 U.S. at 587).

NLFC claims that it made the requisite showing and points us to the following portion from the deposition of Jon Kristofferson, Devcom's Director of Software Development:

Q: [Y]ou still have Exhibit No. 1 there in front of you, and am I wrong, isn't that a Lab Force program?
A: It says Lab Force.
Q: It also says Devcom. Does that mean it was printed out at Devcom's offices?
A: Yeah, I would say it was.
Q: Do you know where that particular program... came from?
A: No.
Q: Was it printed at a Devcom office?
A: Yes.

From this testimony NLFC asked the district court (and now this court) to infer that Devcom loaded the software onto its in-house computers prior to printing. The factual context in this case, however, will not support this inference. For example, Kristofferson testified that the source codes to the NLFC software were not copied onto Devcom's computers. When asked why this was so Kristofferson explained that "It's illegal . . . [t]o have a copy of someone's source or object code on their machine without permission." Furthermore, several persons including Jon Kristofferson, Ronald G. Deiner, Devcom's president, and Alec J. Stapleton, Laboratory Information Systems Manager for FSL, testified that Devcom conducted its business with Cabrini and FSL using dedicated telephone lines, dumb terminals, and on-site visits. As an example, Kristofferson discussed how One particular Devcom employee went about his work:

Q: Does he have telecommunications on that PC, as far as you know?
A: Yes.
Q: So he has a modem on that machine specifically?
A: No, I believe he has a connection up through leased lines.
Q: What are the leased lines?
A: One goes to FSL and one goes to Cabrini.
Q: So he has telecommunications through the leased lines with FSL and Cabrini?
A: Yes.
Q: And he accesses them through his PC; is that your understanding?
A: Yes, using a dumb terminal emulation program.

This testimony bolsters Kristofferson's assertions and indicates that Devcom did not, during its course of business with either lab, download the software onto its computers in order to work on it. Instead, Devcom directly accessed the laboratory computers, via leased or dedicated phone lines and the use of dumb terminals. From the whole record, therefore, the only plausible inference favoring NLFC that can be drawn from the evidence produced by NLFC is that Devcom accessed the memory or hard drive of one of the laboratory computers directly through a dedicated phone line, and that the source codes were printed directly from that source. There is no support here for the inference that this information originated from one of Devcom's computers. This of course does not conclusively prove that this is what happened in this case. But it does mean that, to prove otherwise, NLFC was required to come forward with more persuasive evidence to bolster its claim. It did not do so in this case and therefore the district court was correct in granting summary judgment in favor of Devcom on this allegation.

NLFC next contends that the district court erred concluding that the evidence did not support NLFC's claim that Devcom marketed an enhanced version of the NLFC software to other current NLFC software users. The only evidence introduced by NLFC to prove its claim is a letter from Jon Kristofferson and Ronald Diener to Walter Girod of Our Lady of the Lake Regional, Baton Rouge, Louisiana, dated November 19, 1992. But nothing in this letter can be reasonably interpreted as marketing anything but Devcom's expertise in working with this software. Instead, the letter contains a "list of highlights of our consulting work with the [NLFC] programs," continues by describing other tasks performed for customers, and then

suggests ways that future customers could benefit from Devcom's experience.[6] It simply would not be reasonable to read this letter as an attempt to market the software itself, modified or otherwise. The district court did not err in granting summary judgment in favor of Devcom on this claim as well.

Finally, NLFC asserts that the district court erred in dismissing its three state law claims for lack of supplemental jurisdiction. Under 28 U.S.C. § 1367(a), district courts are granted supplemental jurisdiction over pendant state law claims. If all federal law claims drop out before trial, however, district courts may dismiss such claims. 28 U.S.C. § 1367(c). We will reverse a district court's dismissal of pendant state claims only upon a showing that the district court abused its discretion. *Vukadinovich v. Board of Sch. Trustees of Mich. City Area Schools*, 978 F.2d 403, 415 (7th Cir. 1992), *cert. denied*, 114 S. Ct. 133 (1993). The district court dismissed the three state claims in this case after properly granting summary judgment on NLFC's federal copyright claim. We can find no reason, and NLFC has not offered any, why this was an abuse of the court's discretion. The choice to dismiss on these grounds was therefore not error.

The district court also refused to exercise federal diversity jurisdiction over the state law claims in this action, finding that NLFC could not demonstrate that "the matter in controversy exceeds the sum or value of $50,000." 28 U.S.C. § 1332(a). The party invoking federal jurisdiction bears the burden of establishing the elements

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[6]*See* appendix for a recitation of the pertinent portions of this letter.

of jurisdiction. *Lujan v. Defenders of Wildlife*, 112 S. Ct. 2130, 2136 (1992); *see also FW/PBS, Inc. v. Dallas*, 493 U.S. 215, 231 (1990). Generally the amount in controversy claimed by a plaintiff in good faith will be determinative on the issue of jurisdictiOnal amount, unless it appears to a legal certainty that the claim is for less than that required by the rule. *St. Paul Mercury Indem. Co. v. Red Cab Co.*, 303 U.S. 283, 289 (1938); *Gibbs v. Buck*, 307 U.S. 66, 72 (1939) ("[Al general allegation [that the jurisdictional amount exists] when not traversed is sufficient"). But if the court's jurisdiction is challenged as a factual matter by either the court or the opposing party, the party involving the jurisdiction bears the burden of supporting its jurisdictional allegations by "competent proof." *McNutt v. General Motors Acceptance Corp. of Indiana*, 298 U.S. 178, 189 (1936); *Grafon Corp. v. Hausermann*, 602 F.2d 781, 783 (7th Cir. 1979). This has been interpreted to mean a preponderance of the evidence or "proof to a reasonable probability that jurisdiction exists." *Gould v. Artisoft, Inc.*, 1 F.3d 544, 547 (7th Cir. 1993) (in the context of federal removal jurisdiction); *see also Shaw v. Dow Brands, Inc.*, 994 F.2d 364, 366 n.2 (7th Cir. 1993).

In this case NLFC's complaint alleged that it "suffered damages in excess of the minimum jurisdictional limits of this court." But Devcom challenged this allegation and NLFC was therefore required to make some effort to prove that the damages sustained from its state law claims met the $50,000 threshold. NLFC did not do so, choosing instead to defend its previous assertion as sufficient. NLFC failed to add any information on the amount of damages that may have been sustained in its

state claims.[7] The district court therefore did not err in dismissing NLFC's state law claims on this basis.

III. Conclusion

For the foregoing reasons, the judgment of the district court is affirmed.

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[7]Both parties seem to have labored under the mistaken assumption that Devcom was required to prove that NLFC did not meet the jurisdictional amount. NLFC, for example, stated in its brief that "Devcom did not show that NLFC could not prove the value to Devcom of the trade secret component of the computer software." As discussed above, however, the burden of proving facts supporting federal jurisdiction rests with the party asserting that jurisdiction.

Appendix

The letter from Jon Kristofferson and Ronald Diener to Walter Girod of Our Lady of the Lake Rejoinal, Baton Rouge, LA, reads in pertinent part:

We have been instrumental in assisting Lab Force customers in support, implementation, and enhancement of the Lab Force system. We have experience on Versions 9, 10, and 11 of the Lab Force code. Below is a list of highlights of our consulting work with the Lab Force programs.

1.) Improved the speed performance of the Version 11 CUM reports by a factor of 3x to 5x.

2.) Rewritten the outpatient reporting module including the 100% automation of remote reporting.

3.) Fixed various problems in the IIR programs, and added some new instruments like the Coulter STK-S, and the ABL520 blood gas instrument.

4.) Rewrote and enhanced the hospital interface programs to American Express and Sunborg (Bell-Atlantic). This included adding semaphore logic to eliminate the needless CPU resources wasted on looping.

5.) Wrote the XC7 bi-directional interface for Beckman Instruments direct to the Prime Computer without an IIR PC.

6.) Have done the preliminary investigation into bar-coding several of the Labforce [sic] applications.

Smaller consulting tasks performed have been bug fixing, system tune-ups, mapping out the existing application, etc. Currently we are in the processes of rewriting a major portion of the old microbiology system as a joint project between two of our clients. In this manner, they share the costs associated with the development, as well as control the direction of the development. We are also writing new bi-directional interfaces for two new microbiology instruments.

Devcom has done research in several technical areas for our clients to investigate technologies and directions. Our latest endeavor was to determine if client-server architecture would be appropriate for laboratory software. We are members of HL7 and have incorporated HL7 into our client server designs. The results of the investigation are available in the form of a paper authored by a member of our staff. For a copy of this paper, feel free to give me a call.

All of our customers have expressed an interest in forming a Lab Users Group. Would you be interested in attending? We would be delighted to entertain your questions on what Devcom can do for your [sic] and your organization. If you are interested in the relationships we have developed with other Lab Force customers, references are available.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS

H. Stuart Cunningham
CLERK

Office of the Clerk

Case Number: 1:93-cv-00609
Title: NLFC, Inc. v. Devcom Mid-Amer, Inc
Assigned Judge: Honorable George W. Lindberg

MINUTE ORDER of 1/27/94 by Hon. George W. Lindberg: The Clerk is ordered to enter judgment as follows on a separate document pursuant to FRCP 59: "Judgment is entered for defendant Devcom Mid-America, Inc. and against plaintiff NLFC, Inc. on count I of plaintiff's complaint. The court declines to exercise jurisdiction over plaintiff's pendent state law claims and dismisses counts II, III and IV without prejudice to their being refiled in state court." Plaintiff's notice of appeal will be treated as filed on the date of and after the entry of judgment pursuant to Federal Rule of Appellate Procedure 4(a)(2). terminating case Mailed notice.

This order was entered on the docket by the Clerk February 3, 1994

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS

Name of Assigned Judge
or Magistrate Judge: George W. Lindberg

Case Number: 93 C 609
Date: January 4, 1994
Case Title: NLFC v. DEVCOM, Inc.

DOCKET ENTRY

Defendant Devcom Mid-America, Inc.'s motion for summary judgment as to Count I is granted. Counts II through IV are dismissed.

ORDER

The court has reviewed de novo the report and recommendation of the U.S. Magistrate Judge dated November 16, 1993 recommending that defendant Devcom Mid-America, Inc.'s (Devcom) motion for summary judgment as to Count I be granted and that Counts II-IV, the pendant state claims, be dismissed. The court accepts the recommendations and adopts the reasoning of the Magistrate Judge notwithstanding the objections thereto by plaintiff NLFC, Inc.

This court agrees with defendant Devcom and the Magistrate Judge that as a matter of law defendant Devcom's utilization of the plaintiff's copyrighted software was within the license granted by Lab Force to Cabrini and FSL. Plaintiff failed to controvert in its 12(n) statement the assertions of Devcom in its 12(m) statement which assertions are material and uncontroverted. There being no material issue of fact, the Magistrate Judge correctly found that defendant Devcom's motion for summary judgment as to Count I of plaintiff's amended complaint should be granted.

The court also accepts the Magistrate Judge's recommendation, for the reasons stated in his report, rejecting Devcom's alternative theory of non-joinder of indispensable parties. This court finds that Cabrini and FSL are not necessary parties even if summary judgment was the proper vehicle to raise this issue. Devcom's motion for summary judgment on the basis of non-joinder of indispensable parties will be denied.

The court accepts the recommendation of the Magistrate Judge that plaintiff's claim for attorney fees under 17 USC 505 would be barred by the registration of the copyright being subsequent to the alleged infringement pursuant to the analysis of the Magistrate Judge.

Finally, the court accepts the recommendation of the Magistrate Judge, and adopts his reasoning therefore, concerning plaintiff's inability to establish the amount in controversy sufficient to vest the court with diversity jurisdiction.

The court declines to take jurisdiction of the pendant state claims, Counts II-IV. Those claims will be dismissed.

ORDERED: Defendant Devcom Mid-America, Inc.'s motion for summary judgment as to Count I is granted. Counts II through IV are dismissed.

IN THE UNITED STATES DISTRICT COURT
FOR NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

NLFC, Inc.,	)	
	)	
Plaintiff,	)	
	)	
v.	)	93 C 0609
	)	
Devcom Mid-America, Inc.,	)	
	)	
Defendant.	)	

TO: Honorable George W. Lindberg, Judge, United States District Court

REPORT AND RECOMMENDATION
of Magistrate Judge Ronald A. Guzmán

Plaintiff NLFC, Inc. ("NLFC") is a corporation which designs and licenses use of software. In December 1987 and November 1989 respectively, NLFC entered into nonexclusive licensing agreements with two medical facilities, Cabrini Medical Center ("Cabrini") and Franciscan Shared Laboratory ("FSL"), for use of its software ("NLFC Software"). As permitted under these agreements, both Cabrini and FSL contracted with defendant Devcom America, Inc. ("Devcom") to modify and enhance the NLFC Software in their possession for the purposes of removing bugs in the software and enabling the software to run on their computers.

NLFC brings this copyright action against Devcom, charging that Devcom obtained copies of NLFC 's software from licensees, modified and enhanced the software, and then unlawfully marketed the modifications and enhancements. NLFC had been developing its

software for several years, although it did not register its copyright in the software until January 12, 1993.

On January 29, 1993, NLFC filed its original complaint. On February 23, 1993, Judge George Lindberg dismissed the original complaint on the basis that the complaint contained allegations solely based on information and belief. NLFC filed its First Amended Complaint on March 3, 1993. NLFC's four-count complaint alleges that Devcom infringed its copyrights in NLFC Software (Count I), misappropriated its trade secrets (Count II), tortiously interfered with its contractual relationships (Count III), and Devcom engaged in unfair competition (Count IV).

On March 15, 1993, Devcom moved to dismiss the complaint under Fed. R. Civ. P. 12(b)(1), 12(b)(6), and 12(b)(7). On April 13, 1993, Judge Lindberg referred this case to these chambers for a ruling on Devcom's motion to dismiss. On April 14, 1993, NLFC filed its response, and one week later Devcom filed its reply. On April 27, 1993, NLFC moved to strike Devcom's reply because Devcom had attached various exhibits to the reply and had requested the court to consider the reply as a motion under Fed. R. Civ. P. 56 for summary judgment. On April 29, 1993, this court granted NLFC's motion to strike Devcom's reply, and Devcom withdrew its motion to dismiss.

On May 3, Devcom filed its motion for summary judgment and its motion to dismiss the complaint under Fed. R. Civ. P. 11 and 12(b). On May 17, NLFC filed its response to these motions, and on May 28, Devcom filed its reply. The case is now fully briefed and ready for disposition. For the reasons presented below, Devcom's motion for summary judgment should be granted. In light of this recommendation, this court will not address Devcom's motion to dismiss here.

FACTUAL BACKGROUND

The following statement of facts is based upon the parties Local Rule 12(m) and 12(n) Statements and supporting materials.[8]

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[8] NLFC's Statement of Contested Facts, which follows its Local Rule 12(n) Statement, does not comply with the requirement under Rule 12(n) that the statement consist of "additional. . . material facts." Rather than identifying specific disputed material facts, NLFC's statement raises conclusory allegations, legal conclusions, and misleading characterizations of the record. For instance, NLFC asserts:

> 1. Devcom copied and/or reproduced NLFC's software, in violation of NLFC's rights under Title 17 of the United States Code. Devcom's employee, Jon Kristofferson, Devcom's Director of Software Development, during his deposition of April 22, 1993 admitted that Devcom copied NLFC's software. . .

The first sentence in this paragraph is inappropriate because it states a legal conclusion. The second sentence is not borne out in the record at all: Mr. Kristofferson never "admitted that Devcom copied NLFC's software"; he merely testified that a Lab Force program was printed out at a Devcom office. NLFC's four remaining assertions consist of inappropriate legal conclusions concerning misappropriation of trade secrets, tortious interference with contractual relationships, unfair competition, and rightful acquisition of trial. Because these assertions fail to present any "material facts," they will not be considered

NLFC is a Delaware corporation having its principal place of business in Dallas, Texas. NLFC is a successor in interest to the assets of a Texas corporation, known as Lab Force, Inc. ("Lab Force"), whose assets were all acquired by NLFC.[9] Although Lab Force began developing the NLFC Software in 1978, not until the "past few years" did NLFC work on the software. (Am. Compl. ¶ 5.). Devcom is an Illinois corporation with its principal place of business in Oak Brook, Illinois.

On December 29, 1987, Lab Force entered into an agreement ("Cabrini Agreement") with Cabrini to, among other things, license Cabrini to use the NLFC Software. (Agreement for Sale of Computer Hardware and Licenses of Computer Software, Ex. B to Devcom's Rule 12(m) Statement.) Sections 6.2.2, 6.2.4, and 6.2.7 of the Cabrini Agreement specifically permitted Cabrini to copy, modify, maintain, integrate, and enhance the NLFC Software. (Defendant's Rule 12(m) Statement, ¶ 17; Plaintiffs Rule 12(n) Statement, ¶ 17.) On November 9, 1989, Lab entered into a settlement agreement with the FSL, amended on July 6, 1990 ("FSL Agreement"), to, among other things, license FSL to use the NLFC Software. Section 6 of the FSL Agreement specifically permitted FSL to use the services of a third party to maintain and support the NLFC Software. (Defendant's Rule 12(m) Statement, ¶18; Plaintiffs Rule 12(n) Statement, ¶ 18.)

Devcom has provided an affidavit from its president, Ronald Diener, who asserts that Devcom was initially approached by FSL to remove "time-bombs" from

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by this court.

[9]The complaint does not provide any date for this acquisition.

the NLFC Software.[10] These "time-bombs," Diener explains, are internal programs created by NLFC that would at a predetermined time in the future make the NLFC Software totally inoperable and thus endanger patients of hospitals serviced by FSL. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 5.) According to Diener, FSL subsequently asked Devcom to remove numerous bugs in the NLFC Software that NLFC was unwilling and/or unable to remove. Thereafter, Diener states, FSL asked Devcom to take over the enhancement of the NLFC Software in their possession. (*Id.*) Alec Stapleton asserts that FSL has not had any dealing with NLFC or its predecessor since 1990 and has no current intention to resume any further business. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, ¶ 5.)

Devcom was then approached by Cabrini. According to Diener, Cabrini made this contact based on a referral from FSL. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 6.)[11] Cabrini employed Devcom to modify the NLFC Software in Cabrini's possession for the purpose of removing the bugs in the NLFC Software because NLFC was unwilling or unable to perform such a task, Jeffrey Kessler asserts. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, ¶ 7.) This sequence of events, Kessler observes, left Cabrini extremely dissatisfied with NLFC's performance. (*Id.*)

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[10]Diener does not specify when FSL approached Devcom.

[11]Again, Diener does not mention any date for this contract.

Devcom has, on behalf of its clients Cabrini and FSL, modified and enhanced the NLFC Software in its clients' possession for the purpose of removing the bugs in the NLFC Software and to enable the NLFC Software to be run on the clients' computers. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 4; Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, ¶ 6; Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at ¶ 4.) This was done using telephone lines, dedicated telephone lines, and on-site efforts. (*Id.*)[12]

Mr. Diener denies that Devcom ever obtained a copy of the NLFC Software or that Devcom ever marketed any modifications or enhancements of the NLFC

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[12]NLFC responds in paragraph 21 of its Rule 12(n) Statement that it cannot assess the veracity of the statements contained in paragraph 21 of Devcom's Rule 12(m) Statement because "insufficient discovery has been conducted at this time to make such a determination." Such a response is inadequate under the local rules. Local Rule 12(n) requires the nonmoving party to respond to each numbered paragraph in the moving party's 12(m) Statement, and in the case of any disagreement, to support its position through specific references to affidavits, parts of the record, and other supporting materials relied upon. All material facts set forth in the moving party's Rule 12(m) Statement "will be deemed to be admitted unless controverted by the statement of the opposing party." (Local Rule 12(n).) Accordingly, Devcom's statements in paragraph 21 of its 12(m) Statement are deemed admitted. Devcom has made no motion to stay either the briefing of this motion or its consideration and determination for purposes of conducting further discovery.

Software. He asserts in his affidavit that Devcom (1) has never obtained a copy of the NLFC Software (except a viewable print-out necessarily required for modification purposes), (2) has never marketed, offered to sell or sold any copies, modifications or enhancements of the NLFC Software, (3) has never copied the NLFC Software (except to create a viewable print-out necessarily required for modification purposes) and (4) has never marketed, offered to sell or sold the UNIX-modified software to any person or entity. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 3.)

Devcom also submits affidavits from representatives of both Cabrini and FSL denying that either of their institutions ever provided a copy of the NLFC Software to Devcom. The Director of Information Services at Cabrini, Jeffrey Kessler, asserts in his affidavit that Cabrini has never delivered a copy of the NLFC Software to Devcom. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, ¶ 5.) Finally, Alec J. Stapleton, Laboratory Information Systems Manager of FSL, states that FSL has never delivered a copy of the Lab Force software to Devcom. He adds that Devcom has never made a copy of the Lab Force software (except a viewable printout required for modification purposes); marketed, offered to sell or sold any copies of the Lab Force software to any person or entity; or made any modifications or enhancements of the Lab Force software for FSL except as provided below. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at ¶ 3.)

According to Diener, Devcom has been approached by the executives of NLFC to both provide maintenance and support for the NLFC Software, and to act as a distributor of the NLFC Software. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 7.) Diener explains that Devcom declined both invitations on the basis that Devcom's reputation would be adversely

affected if it became known that the products of NLFC -- the NLFC Software -- were being marketed by Devcom. (*Id.*) Diener adds that Devcom has never modified and/or enhanced the NLFC Software for any other licensee of NLFC or for any other entity or person whatsoever other than Cabrini and FSL. (*Id.* at ¶ 8.)

On January 12, 1993, NLFC filed an Application for Copyright ("Application") with the U.S. Copyright Office to obtain copyright registration of its software entitled "NLFC HYBRID Lab Information System Computer Program." Section 4 of the Application states that NLFC claims ownership to the NLFC Software as the result of being "successor to author," or, Lab Force. Section 5 of the Application states that there has been no earlier registration made for either the NLFC Software or any earlier version of that software.

Allegations of the Complaint

NLFC resells computer hardware manufactured by others, as well as develops and licenses its own computer software. NLFC developed the design, modifications, source code and object code, and unique business procedures for this software. NLFC alleges that these practices constitute valuable trade secrets which give NLFC a competitive advantage. (Am. Compl. ¶ 4) NLFC is a successor in interest to the assets of a Texas corporation known as Lab Force, Inc., which filed for bankruptcy under Chapter 7 of the Federal Bankruptcy Act. NLFC acquired the company's assets after they had been foreclosed and transferred to Lab Force's secured creditors. Since 1978, NLFC and Lab Force designed, developed, manufactured, and maintained computer software products for use in medical pathology laboratories. (*Id.* ¶ 5.)

NLFC licenses use and possession of its software to operate on certain computer hardware manufactured by other companies. One such software version ("Prime Version of NLFC Software") runs on the hardware manufactured by a company known as Prime Computers. NLFC has also developed software ("UNIX Version of NLFC Software") to operate in conjunction with the UNIX system developed by Bell Labs in the 1960s. Because the UNIX operating system works on many different hardware products, the UNIX Version of NLFC also functions on different hardware -- in contrast to the Prime Version of NLFC Software, which runs only on a Prime Computer. (*Id.*) NLFC's licensing agreements protect NLFC Software as both trade secrets and copyrighted works. (*Id.* ¶ 6.)

In Count I of its four-count complaint, NLFC charges Devcom with copyright infringement under the Copyright Act of 1976, 17 U.S.C. 501 *et seq.* NLFC alleges that its software contains original, copyrightable material. NLFC or its predecessor, Lab Force, has been the sole owner of all right, title, and interest in and to the NLFC Software, in all its versions, since the first versions were created. NLFC and its predecessor, Lab Force, have complied with the provisions of the 1976 Copyright Act and all other laws governing copyright to secure the exclusive rights in, and privileges to, the copyrights of the NLFC Software. In January, 1993 NLFC registered the copyright in the NLFC Software in the U.S. Copyright Office. Since 1978, only NLFC or Lab Force has legally produced or marketed the NLFC Software. (*Id.* ¶ 12.) NLFC alleges that Devcom infringed NLFC's copyrights in the NLFC Software by preparing derivative works based on the NLFC Software and by marketing enhancements and adaptations of the NLFC Software. (*Id.*)

In Count II, NLFC alleges that Devcom misappropriated NLFC's trade secrets under Texas law, or in the alternative under Illinois law. NLFC or its predecessor,

Lab Force, has been the sole owner of all right, title, and interest in and to the NLFC Software and the NLFC Trade Secrets. NLFC and Lab Force have complied with the trade secret common law of Texas and the Illinois Trade Secrets Act. (*Id.* ¶¶ 17-19.) According to NLFC, Devcom has undertaken a campaign to acquire and utilize NLFC's trade secrets for Devcom's commercial and private advantage to the detriment of NLFC's exclusive right, title, and interest in its products and trade secrets. NLFC alleges that Devcom maliciously, knowingly, and with willful intent misappropriated NLFC's trade secrets. (*Id.* ¶20.)

In Count III, NLFC alleges that Devcom tortiously interfered with contractual relationships entered into between NLFC and its customers. Specifically, NLFC alleges that Devcom induced NLFC 's customers to provide it with NLFC's products and trade secrets, in violation of contractual provisions those customers had with NLFC. (*Id.* ¶ 27.)

Finally, in Count IV, NLFC charges Devcom with engaging in unfair competition with NLFC, to NLFC's detriment. (*Id.* ¶ 29.)

Devcom has moved for summary judgment regarding Count I of the complaint on the grounds that there is no dispute that it did not copy the NLFC Software. Devcom has also moved for summary judgment with regard to the rest of the complaint because NLFC did not join Cabrini and FSL as indispensable parties pursuant to Fed. R. Civ. P. 19. In addition, Devcom contends that NLFC is not entitled to statutory damages and attorney's fees under 17 U.S.C. § 412 because NLFC did not register its copyright until after the alleged infringement. Finally, Devcom urges this court to dismiss NLFC's remaining three state law counts (Counts II-IV) on the ground that pendent claim jurisdiction no longer exists once the federal copyright action is dismissed.

DISCUSSION

Summary judgment will be granted only if there is no genuine issue of material fact and the plaintiff is entitled to judgment as a matter of law. *Bourne Co. v. Hunter Country Club Inc.*, 990 F.2d 934, 938(7th Cir.), *cert. denied*, 1993 U.S. LEXIS 6380 (1993). The moving party bears the initial burden of demonstrating that there is no genuine issue of material fact in dispute. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986). Once the moving party has stated that a fact is not in question, the burden shifts to the nonmoving party to demonstrate through affidavits or depositions that there is some genuine issue for trial. *Id.* at 325. Where the nonmoving party fails to make a showing sufficient to establish the existence of an essential element on which it would bear the burden of proof at trial, summary judgment should be entered against it. *Fitzpatrick v. Catholic Bishop of Chicago*, 916 F.2d 1254, 1256 (7th Cir. 1990). The moving party is not required to negate its opponent's claim. *Id.*

I. Copyright Infringement

In Count I of its complaint, NLFC charges Devcom with copyright infringement under the Copyright Act of 1976, 17 U.S.C. § 501 *et seq*. Under § 501(a) of the Act, any action that is inconsistent with a copyright owner's exclusive rights constitutes infringement. A copyright holder has the exclusive rights of reproduction, preparation of derivative works,[13] distribution, performance, and display. 17 U.S.C. § 106 (1977 & West Supp. 1993).

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[13]"Derivative works" are defined to include translations and any form in which a work may be recast, transformed or adapted. 17 U.S.C. § 101.

To prevail on its claim of copyright infringement, NLFC must prove ownership of a copyright and a "'copying' of protectable expression" beyond the scope of a license. *Mai Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir. 1993) (quoting *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989)). NLFC has established the first prong of the test for copyright infringement. A certificate of registration, if timely obtained, constitutes *prima facie* evidence of the validity of the copyright and of the facts stated in the certificate. 17 U.S.C. § 410(c).[14] Devcom does not dispute that NLFC owns a valid copyright in and to the NLFC Software, having an effective date of January 12, 1993. (Defendant's Rule 12(m) Statement, ¶ 14; Defendant's Reply, at 3.)

A plaintiff may prove the second element of the test, i.e., copying, either by direct evidence or by establishing that the defendant had access to the plaintiff's copyrighted work and that the defendant's work is substantially similar to the copyrightable material. *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 837-38 (Fed. Cir. 1992).

A. Devcom's Alleged Copying of the NLFC Software

NLFC alleges that Devcom infringed NLFC's copyrights in the NLFC Software by preparing derivative works based on the NLFC Software and by marketing

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[14]The fact that NLFC apparently did not register this copyright until after Devcom's alleged infringement does not preclude NLFC from recovering for infringement of these copyrights occurring before the date of registration. *Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27, 33 (2nd Cir. 1982); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 12.08 at 12-113 (1992).

enhancements and adaptations of the NLFC Software. (Am. Compl. ¶ 12) Specifically, NLFC alleges that Devcom obtained a copy of its Software from licensees, modified and enhanced that software to run on UNIX, and then marketed the modified software to licensees of NLFC software. (*Id.* ¶ 7.)

Devcom vehemently denies these allegations. It has furnished an affidavit from its president Ronald G. Diener, denying that Devcom has ever obtained a copy of the NLFC Software; marketed, offered to sell, or sold any copies, modifications, or enhancements of the NLFC Software; copied the NLFC Software; or marketed, offered to sell, or sold the UNIX-modified software to any person or entity. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 3.) Devcom has also supplied the affidavit of Jeffrey Kessler, Cabrini's Director of Information Services, who asserts that Cabrini never delivered a copy of the NLFC Software to Devcom. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, ¶ 5.) Finally, Devcom provides the affidavit of Alec J. Stapleton, FSL's Laboratory Information Systems Manager, who asserts that FSL has never delivered a copy of the Lab Force software to Devcom. He adds that Devcom has never made a copy of the Lab Force software (except a viewable printout required for modification purposes); marketed, offered to sell or sold any copies of the Lab Force software to any person or entity; or made an modifications or enhancements of the Lab Force software for FSL. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at ¶ 3.)

Although NLFC characterizes the testimony from these affidavits as simply "not true" (Plaintiff's Rule 12(n) Statement, ¶ 20), NLFC does not supply any affidavits of its own contesting Devcom's affidavit testimony. NLFC asserts that "Devcom has at least two copies of plaintiff's software, one copy on the computer and one copy in hard

copy form" (*id.*), but in support provides only a single page from the deposition of Jon Kristofferson, Devcom's Director of Software Development. As the following exchange illustrates, Kristofferson did not in fact testify that Devcom had two copies of the software:

> Q: [Y]ou still have Exhibit No. 1 there in front of you, and am I wrong, isn't that a Lab Force program?
> A: It says Lab Force.
> Q: It also says Devcom. Does that mean it was printed out at Devcom's offices?
> A: Yeah, I would say it was.
> Q: Do you know where that particular program . . . came from?
> A: No.
> Q. Was it printed at Devcom's office?
> A: Yes.

(Ex. A to Plaintiff's Rule 12(n) Statement, at 121.) Kristofferson merely testified that Devcom had possession of a viewable print-out.

Local Rule 12(m) provides in part that "[a]ll material facts set forth in the statement required of the moving will be deemed admitted unless controverted by the statement of the opposing party." NLFC's citation to the Kristofferson deposition is insufficient under the local rules because it fails to contradict DEVCOM's assertion that the only "copy" it ever had was a printout for purposes of modification. Because NLFC failed to properly contest Devcom's facts denying any copying or marketing of NLFC Software, none of the cited assertions in the affidavits of Diener, Kessler, or Stapleton are in dispute. The facts therefore establish that the only "copy" of the software in DEVCOM's possession was a printout used for the purpose of modifying the program as allowed in the CABRINI and FSL licensing agreements. See

Bourne Co. v. Hunter Country Club, Inc., 990 F.2d 934, 938 (7th Cir.) (affirming summary judgment in favor of plaintiff copyright owners against defendant country club which played songs copyrighted by plaintiffs, where defendant failed to deny plaintiffs' facts setting forth a prima facie case of infringement), *cert. denied*, 1993 U.S. LEXIS 6380 (1993); *Fitzpatrick v. Catholic Bishop of Chicago*, 916 F.2d 1254, 1256-57 (7th Cir. 1990) (affirming grant of summary judgment where nonmoving party failed to "point[] [court] toward contradictory evidence as [it] must to defeat the summary judgment motion"; "[t]he days are gone, if they ever existed, when the nonmoving party could sit back and simply poke holes in the moving party's summary judgment motion.")

NLFC next asserts in its Rule 12(n) Statement that Devcom had been "actively marketing modifications and enhancements of plaintiff's software and conversion to Unix based systems." (Plaintiff's Rule 12(n) Statement, at ¶ 20.) In support of this assertion, NLFC offers a letter from Kristofferson and Diener to Walter Girod of Our Lady of the Lake Regional, of Baton Rouge, Louisiana, dated November 19, 1992. NLFC does not specify what language in this three-page letter it finds particularly relevant. In the letter, Kristofferson and Diener explain that Devcom has extensive experience servicing Prime hardware, the PRIMOS operating system, the UNIX operating system, and the Lab Force system. They note that Devcom personnel has provided various forms of assistance for Lab Force customers, including the implementation and enhancement of the Lab Force system. Presumably, NLFC seeks to draw attention to the final paragraph of the letter:

> All of our customers have expressed an interest in forming a Lab Users Group. Would you be interested in attending? We would be delighted

> to entertain your questions in what Devcom can do for your [sic] and your organization. If you are interested in the relationships we have developed with other Lab Force customers, references are available.

(Ex. B to Plaintiff's Rule 12(n) Statement.) This letter fails to support any contention that Devcom ever had a copy of the NLFC Software or marketed modifications or enhancements of the software.[15]

Devcom has presented affidavits from those individuals at Cabrini and FSL responsible for information services, asserting that Devcom engaged in its debugging activities at the request of both licensees. NLFC has not supplied any affidavits, however, which controvert Devcom's own affidavits denying any unlawful activities on the part of Devcom involving the NLFC software.

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[15]Devcom's reply brief urges that further support for its position concerning the alleged marketing letter can be found in the exhibit attached to the reply. Devcom, however, does not refer to any relevant page numbers or passages in the entire exhibit -- some forty-five pages, not all sequential, of transcript from the Kristofferson deposition. It is not this court's obligation to wade through pages of deposition testimony without any citations or explicit references.

B. Whether the License Agreements Permitted Devcom to Modify or Enhance the NLFC Software

Devcom argues that its acquisition and use of the NLFC Software was not improper because it complied with the terms of the license agreements which NLFC entered into with Cabrini and FSL. Devcom contends that these agreements authorized a third party such as Devcom to debug, modify, and enhance the NLFC Software in the possession of Cabrini and FSL. The Cabrini agreement, for example, permits Cabrini to copy the NLFC Software when "reasonably necessary for licensed use and in normal backup procedures":

> 6.2.2 [Cabrini] agrees not to copy the COMPUTER SOFTWARE covered by this Agreement in any manner except as reasonably necessary for licensed use and in normal backup procedures, without the express written consent of LAB FORCE.

The agreement also authorized Cabrini to modify any of the software and form an updated work:

> 6.2.4 [Cabrini] may modify any of the COMPUTER SOFTWARE, integrate it into other program material or form an updated work; provided, however, that the use of any portion of the COMPUTER SOFTWARE included in any modified, integrated or updated work shall only be for PURCHASER. .

Furthermore, the agreement permitted Cabrini to use the software source code "for the purposes of modification, maintenance, enhancement, and integration":

> 6.2.7 LAB FORCE shall give to [Cabrini] copies of the source code corresponding to all LICENSED SOFTWARE including but not limited to, each application, compiler, file structure, database handler and file layout corresponding thereto. [Cabrini] may use the foregoing for purposes of modification, maintenance, enhancement and integration by [Cabrini].

Finally, Section 6 of the settlement agreement between NLFC and Devcom permits FSL to secure from any source maintenance and support services which FSL deems necessary:

> [Lab Force] agrees that FSL may obtain maintenance and support services from whatever source FSL deems necessary.

NLFC makes no attempt to argue that Devcom's actions contravened the terms of the license agreements. In its Rule 12(n) Statement, in fact, NLFC admits that the Cabrini Agreement permitted Cabrini to copy, modify, maintain, integrate, and enhance the NLFC Software (Devcom's Rule 12(m) Statement, ¶ 17; NLFC's Rule 12(n) Statement, ¶ 17) and that the FSL Agreement allowed FSL to use the services of a third party to maintain and support the NLFC Software (Devcom's Rule 12(m) Statement, ¶ 18; Devcom's Rule 12(n) Statement, ¶ 18.). NLFC thus has failed to show how Devcom's actions are inconsistent with the terms of license agreements. Because NLFC has not raised any genuine issue of material fact regarding Devcom's compliance with the Copyright Act, Devcom's motion for summary judg-

ment on Count I should be granted.[16]

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[16]Devcom 's alternative argument that its actions are permitted by § 117 of the Copyright Act, 17 U.S.C. § 117(1), is insupportable. Section 117 sets forth a limitation on the exclusive rights of computer program copyright owners: the provision allows an "owner of a copy of a computer program" to make or authorize the making of another copy or adaptation of that computer program, provided that a copy is an "essential step in the utilization of the computer program in conjunction with a machine and . . . it is used in no other manner." 17 U.S.C. § 117(1). Devcom argues that § 117 does not prohibit Cabrini or FSL from using the services of a third party such as itself to modify and enhance the NLFC Software.

To show that a third party such as itself is authorized to adapt the NLFC Software, however, Devcom must first demonstrate that licensees such as Cabrini and FSL constitute "owners" of a copy of computer programs for purposes of § 117(1). Devcom cannot so demonstrate. Various courts have rejected the notion that licensees can be characterized as "owners" under the statute. *See Mai Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511,518 n.5 (9th Cir. 1993) ("Since [plaintiff software designer] licensed its software, the [customers of defendant computer company] do not qualify as 'owners' of the software and are not eligible for protection under § 117."); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089 n.9 (9th Cir. 1989) (citing § 117; "[a]n owner of a copy of software has certain rights under the Copyright Act which a mere possessor does not"); *CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F. Supp. 337 (M.D. Ga. 1992) (even though licensee of copyrighted computer software system possessed source

II. Joinder of Cabrini or FSL

Devcom argues that it is entitled to summary judgment regarding the entire complaint because NLFC failed to join Cabrini and FSL as indispensable parties, pursuant to Fed. R. Civ. P. 19. A summary judgment, however, is generally deemed to be an inappropriate method of disposing a case for failure to join an indispensable party; more typically, a motion is made under Rule 12(b)(7), which specifically refers to the defense of "failure to join a party under Rule 19." 7 Charles A. Wright, Arthur R. Miller, & Mary K. Kane, *Federal Practice and Procedure*: Civil 2d § 1609, at 128, 133 (1986). A dismissal under Rule 12(b)(7) is not regarded to be on the merits. *Id.* at 133. Devcom's motion will be treated here as a motion to dismiss brought under Rule 12(b)(7).

In determining whether to dismiss an action for failure to join an indispensable party, the court must undertake a two-step analysis under Fed. R. Civ. P. 19. Under Rule 19, the threshold question is whether the person in question is "necessary," or whether:

> (1) in the person's absence complete relief cannot be accorded among those already

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and object codes, licensee's possession of these codes did not make it an "owner" of the codes for purposes of § 117). In fact, when Congress enacted the Computer Software Copyright Act in 1980, it replaced the former Section 117 with a new version which granted "owners," as opposed to "rightful possessors," a limited right to copy and adapt their software. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 260 n.11 (5th Cir. 1988) (reviewing legislative history).

> parties, or (2) the person claims an interest relating to the subject of the action and is so situated that the disposition of the action in the person's absence may (i) as a practical matter impair or impede the person's ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest. . .

Fed. R. Civ. P. 19(a). Only if a person is deemed "necessary" under Rule 19(a) must the court consider the second step of the analysis. *Novacolor, Inc., v. American Film Technologies, Inc.*, No. 91 C 6213, 1992 WL 170564, at *9, (N.D. Ill. July 16, 1992) (quoting *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 876 n.1 (Fed. Cir. 1991)).

If the court determines that a presently nonjoined person is necessary, then it must either "order that the person be made a party," or, if such a person is not subject to the court's jurisdiction, "the court shall determine whether in equity and good conscience the action should proceed among the parties before it, or should be dismissed. . . ." Fed. R. Civ. P. 19(a),(b). In making the latter determination, the court shall consider four factors:

> [F]irst, to what extent a judgment rendered in the person's absence might be prejudicial to the person or those already parties; second, the extent to which . . . the prejudice can be lessened or avoided; third, whether a judgment rendered in the person's absence will be adequate; fourth, whether the plaintiff will have an adequate remedy if the action is dismissed for nonjoinder.

Fed. R. Civ. P. 19(b). Thus only after the court has assessed both steps of the analysis -- and concluded that the case must be dismissed -- may a party properly be deemed indispensable. *Id.*; *see also Wade v. Hopper*, 993 F.2d 1246, 1249 (7th Cir.) ("The test for an indispensable party is whether justice cannot be done unless it is joined."), *cert. denied*, 1993 U.S. LEXIS 5725 (1993).

Devcom asserts that (l) Cabrini and FSL are necessary parties to NLFC's action; (2) Cabrini and FSL have not yet been joined as parties to this suit; (3) because Cabrini and FSL are intimately connected with this lawsuit, the court's disposition -- whether it be the granting of an injunction or an order for impoundment, destruction, or forfeiture -- would impair or impede their ability to protect their interests in the NLFC Software; and (4) Devcom risks exposure to double or multiple liability from Cabrini and FSL under the license agreements, should this court's decision render Devcom unable to modify or enhance the NLFC Software.

Without elaboration, Devcom characterizes the circumstances here as "precisely" the same as those in *Colmol Co. v. Goodman Mfg. Co.*, 132 U.S.P.Q. 126 (N.D. Ill. 1961). Devcom's discussion of that case consists solely of the following quotation from Judge Parsons' opinion: "If, however, the licensee's interests are in fact to be affected by the decree, he is a proper party, and the court may require him to be joined." (Defendant's Motion, at 7-8 (quoting *Colmol Co.*, 132 U.S.P.Q. at 128).) Devcom thus urges that under Fed. R. Civ. P. 19, Cabrini and FSL are indispensable parties and the complaint should be dismissed.

In *Colmol Co.*, plaintiff patent owner sought to enjoin defendant from infringing its patented invention -- machines that could be used to dig coal. Defendant challenged the validity of the patents on the grounds that

they were lacking in invention and novelty. Defendant moved to join a third party which defendant characterized as a "necessary party" -- a manufacturing company to which Colmol had granted an exclusive license to manufacture, use, and sell its machines over a five-year period.

The *Colmol* court granted the motion. While he acknowledged that a simple licensee lacks a sufficient interest to become a necessary or indispensable party in an infringement suit, Judge Parsons explained that the third-party licensee was "something greater than a simple licensee." 132 U.S.P.Q. at 128. In order for the court to reach a full determination, Judge Parsons reasoned, it was necessary for the licensee to be joined as a party plaintiff. *Id.*

Unlike the third-party licensee in *Colmol*, Cabrini and FSL are not exclusive licensees. The license agreements themselves explicitly state that Lab Force granted non-exclusive licenses to the two medical facilities.[17] The distinction, for purposes of Devcom '

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[17] Lab Force's license agreement with Cabrini states:

> 6.2.1 LAB FORCE hereby grants to [Cabrini] a non-exclusive, perpetual and non-transferable license to use the COMPUTER SOFTWARE describe [sic] in Exhibits A-I, A-2, A-3, A-4 and B only in conjunction with the DESIGNATED COMPUTER . . .

(Ex. B to Devcom's Rule 12(m) Statement (emphasis added).)

motion here, is crucial:

> [A] bare or nonexclusive licensee has been viewed as neither a necessary nor even a proper party to an infringement suit. This is because the license merely confers the right to do something that would not be permitted in its absence, but it does not guarantee that the licensee shall enjoy the benefits of the monopoly. Consequently, should the patent or copyright be infringed, the nonexclusive licensee theoretically has suffered no legal injury that justifies his participation in the action.

7 Charles A. Wright, Arthur R. Miller & Mary K. Kane, *Federal Practice and Procedure*: Civil 2d § 1614, at 214-15 (2d ed. 1986) (footnote omitted). While a non-exclusive licensee has no property interest in the patent/copyright monopoly, an exclusive licensee has the assurance of the patent/copyright owner that others shall be prevented from using the patent/copyright. *In-Tech Marketing Inc. v. Hasbro, Inc.*, 685 F. Supp. 436, 439 (D. N.J. 1988).

Lab Force's agreement with FSL provides:

> FSL shall have and shall continue to have a perpetual, non-exclusive, non-transferable license to use the Lab Force Software . . ., which license . . . shall extend to "WFSI Hospitals" and "Referral Laboratories."

(Ex. C to Devcom's Rule 12(m) Statement, § 4 (emphasis added).)

A similar set of circumstances arose in *Ocasek v. Hegglund*, 673 F. Supp. 1084 (D. Wyo. 1987), a case not cited by either party. In *Ocasek*, plaintiff copyright owners brought an infringement action against a bar owner who allegedly permitted various songs to be performed in her establishment in violation of plaintiffs' copyrights. Defendant moved to join the American Society of Composers, Artists, and Publishers ("ASCAP"), a non-exclusive licensee of plaintiffs' copyright, as an indispensable party. The court, however, found that under Fed. R. Civ. P. 19, ASCAP -- which acted as the licensing agent of each plaintiff -- was not the party in interest and was not essential to the full resolution of the dispute. The court thus denied plaintiffs' motion for leave to join ASCAP as a party. *Id.* at 1087.

There is a different element in the present case not found in the above cited cases. Not only is the issue of the possible violation plaintiff's trademark rights involved, which as pointed out above, is an issue as to which Cabrini and FSL as nonexclusive licensees are not necessary parties, but also there is the question of the interpretation of Cabrini and FSL's maintenance agreements with DEVCOM. It is by virtue of the maintenance agreement with Cabrini and FSL that DEVCOM claims its right to modify and enhance NLFC 's software to the extent that it has. However, I do not see this as an issue essential to the determination of the case. The thrust of NLFC's complaint is not that Devcom has violated its rights by enhancing, maintaining or modifying the program under its contract with Cabrini and FSL, but that it has done so for the purpose of commercializing, marketing and selling the enhanced version of the program. Furthermore, if this were not the case, if Cabrini and FSL actually were "necessary" parties under Rule 19(a) -- that is, if their practical ability to protect their interests were at stake, and they could not be adequately represented by Devcom -- then there would in all likelihood be no need to resort to

joinder, because Cabrini and FSL would be entitled to intervene as a matter of right under Fed. R. Civ. P. 24(a). *See Ferrofluidics Corp. v. Advanced Vacuum Components, Inc.*, 968 F.2d 1463, 1472 (1st Cir. 1992) (licensee of employer's magnetic field rotary seal technology was not indispensable party to employer's action against former employee for breach of restrictive covenant, even though licensee was under contract to sell seals to business formed by employee to compete with employer and lawsuit had impact on licensee's ability to market those seals). Yet Cabrini and FSL have made no attempt to intervene.

III. Statutory Damages and Attorney's Fees

NLFC argues that it is entitled to an award of statutory damages under 17 U.S.C. § 504[18] and attorney's fees under 17 U.S.C. § 505. (Am. Compl., Prayer for Relief, ¶¶ H, L, M.) Devcom contends that 17 U.S.C. § 412 precludes any such relief where, as is the case here, the alleged copying preceded the effective date of the registration of the copyright.

Section 412 of the Copyright Act prohibits the award of statutory damages or attorneys' fees unless the

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[18]Under Section 504(c)(1), the court, in its discretion, may award statutory damages in a sum between $500 and $20,000 per infringement. *See Chi-Boy Music v. Charlie Club, Inc.*, 930 F.2d 1224, 1229 (7th Cir. 1991) (identifying factors a court may consider in awarding fees and damages).

plaintiff registers its copyright prior to the infringement.[19] Indeed, Section 412 is plainly entitled "Registration as prerequisite to certain remedies for infringement." 17 U.S.C.A. § 412 (emphasis added); *Data General Corp. v. Grumman Sys. Support Co.*, 825 F. Supp. 361, 364 (D. Mass. 1993). Courts applying § 412 have barred recovery unless the plaintiff has shown that registration predated the infringement. *See Cable/Home Communication Corp. v. Network Productions, Inc.*, 902 F.2d 829, 850 (11th Cir. 1990) ("As a procedural matter, the plaintiff copyright owner must have registered the copyright prior to the infringement in order to obtain statutory damages."); *Evans Newton, Inc. Chicago Sys. Software*, 793 F.2d 889,

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[19]12 Section 412 provides:

> **Registration as prerequisite to certain remedies for infringement**
>
> In any action under this title . . . no award of statutory damages or of attorney's fees as provided by sections 504 and 505, shall be made for --
>
> (1) any infringement of copyright in an unpublished work commenced before the effective date of its registration; or
>
> (2) any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work.

17 U.S.C.A. § 412 (West Supp. 1993).

896 (7th Cir. 1986) (reversing an award of attorney's fees because § 412 prohibits such an award "unless the plaintiff registers its copyright prior to the infringement"), cert. denied, 479 U.S. 949 (1986); *Data General Co.*, 825 F. Supp. at 364 (relying on *Cable/Home Communication Corp.* and *Evans Newton, Inc.*). Thus NLFC bears the burden of demonstrating that it complied with the prerequisite of § 412.

NLFC has failed to offer any argument as to why § 412 should not apply here. Puzzlingly, NLFC focuses instead on the interpretation of the term "publication" under the Copyright Act.[20] NLFC asserts that its request for statutory damages and attorney's fees is appropriate here because "there is a genuine issue of material fact concerning when NLFC published the software." (Plaintiffs Opposition, at 6.) NLFC provides no further elaboration.

The date of publication is not at issue. On its registration application dated January 12, 1993, NLFC had left blank the instruction for the date and nation of the

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[20]NLFC's opposition brief never identifies which provisions of Title 17 Devcom has allegedly misinterpreted. For example, NLFC asserts:

> Devcom has misinterpreted the portions of Title 17 of the United States Code, to which it refers. NLFC submits that the "publication" term as used in those statutes is one of the issues at the heart of the controversy before this Court.

(Plaintiff's Opposition, at 6.)

first publication of the particular work. (Ex. A to First Amended Complaint.) NLFC does not dispute that section 3 of this application stated that there had been no publication of the NLFC Software. (Plaintiff's Rule 12(n) Statement, ¶ 12.) Yet NLFC's evidence in support of its charges of infringement focuses solely on activity prior to the date of registration. (*See* Dep. of Jon Kristofferson, Ex. A to Plaintiff's Rule 12(n) Statement; Computer Printout of 7/1/92, Ex. 1 to Plaintiffs Rule 12(n) Statement; Letter from Kristofferson and Ronald Diener to Walter Girod of 11/19/92, Ex. B to Plaintiff's Rule 12(n) Statement.) The publication date of the NLFC Software does not constitute a genuine issue of material fact.

Consequently, NLFC should not qualify for statutory damages or attorney's fees because it has shown that it registered the copyright before the alleged infringement. NLFC should be limited to recovering its actual damages and Devcom's profits, if any, for Devcom's alleged infringement under 17 U.S.C. § 504(b).

IV. Pendent State Law Claims

In its remaining three counts, NLFC brings pendent state claims against Devcom for misappropriation of its trade secrets (Count II), tortious interference with its contractual relationships (Count III), and unfair competition (Count IV). In the alternative, NLFC alleges that this court has diversity jurisdiction over these claims. Devcom has moved for summary judgment on all three counts on the ground that the court no longer retains pendent claim jurisdiction over these state law counts once the federal copyright action is dismissed. Devcom adds that in the absence of a claim for statutory damages under 17 U.S.C. § 504(c) of the Copyright Act, Counts II, III, and IV do not adequately allege damages in excess of $50,000 for the application of diversity jurisdiction.

In determining whether to retain or dismiss pendent state claims, the district judge has broad discretion in making a managerial judgment on whether to allow plaintiff to bring one case in federal court or force him to litigate his state claim in state court. *Duckworth v. Franzen*, 780 F.2d 645, 656 (7th Cir. 1985), *cert. denied*, 479 U.S. 816 (1986). When all federal claims are dismissed before trial, the district court should relinquish its pendent claim jurisdiction. *United Mine Workers v. Gibbs*, 383 U.S. 715 (1966); *Landstrom v. Illinois Dep't of Children & Family Servs.*, 892 F.2d 670, 679-80 (7th Cir. 1990); *Graf v. Elgin, Joliet and Eastern Ry. Co.*, 790 F.2d 1341, 1344 (7th Cir. 1986). Since NLFC's federal copyright action should be dismissed against Devcom, NLFC's state law claims should also be dismissed under the doctrine of pendent jurisdiction.

This court has already recommended that NLFC not be entitled to recover statutory damages. Consequently, under 17 U.S.C. § 504(b),[21] NLFC should only be

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[21] 17 U.S.C. § 504(b), provides, as follows:
Actual Damages and Profits. -- The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

permitted to recover actual damages and any additional profits of Devcom, if any, attributable to the alleged infringement.[22]

NLFC, however, cannot obtain actual damages. Devcom has supplied an affidavit from its president, Ronald G. Diener, asserting that Devcom has never marketed, offered to sell, or sold any copies, modifications, or enhancements of the NLFC Software. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 3.) Devcom thus claims it has no lost profits to recover. (Defendant's Reply, at 14.) Although NLFC asserts in its opposition brief that "there is a great deal of money in controversy" (Plaintiffs Opposition, at 7), it has presented no evidence that it suffered any lost profits or that Devcom earned actual profits caused by the alleged infringement. Absent such a showing, NLFC should not be entitled to monetary relief. *See Hays v. Sony Corp. of America*, 847 F.2d 412, 415 (7th Cir. 1988) (actual damages not recoverable where copyright holders of word processor manual presented no evidence showing that they intended to publish their manual for profit); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* §14.02[A] at 14-10, 14-11 (1992) ("In the absence of convincing evidence as to the volume of sales which plaintiff would have obtained but for the infringement, the measure of lost profits may be rejected as too speculative."). Because NLFC cannot show that it sustained actual damages resulting from the alleged infringement, NLFC cannot show that

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[22] As Judge Shadur has pointed out, the statute entitles the copyright owner not to the sum of actual damages plus infringer's profits, but rather the greater of (1) its own actual damages and (2) the infringer's profits. *Respect Inc. v. Committee on Status of Women*, 821 F. Supp. 531, 532 (N.D. Ill. 1993).

$50,000 in controversy exists for purposes of diversity jurisdiction. Accordingly, NLFC's pendent state claims should be dismissed.

CONCLUSION

For the foregoing reasons, Devcom's motion for summary judgment should be granted. Because there is no genuine issue of material fact that Devcom did not copy the NLFC Software for commercial purposes and that NLFC's license agreements with Cabrini and FSL did allow Devcom to modify or enhance the NLFC Software, summary judgment should be granted in favor of Devcom on Count I. Devcom cannot show, however, that nonexclusive licensees Cabrini and FSL and essential parties to the complete resolution of this suit; accordingly, Devcom's request that Cabrini and FSL be joined as indispensable parties should be denied. In addition, because NLFC has not shown that it registered its copyright before the alleged infringement, NLFC should not be entitled to statutory damages or attorney's fees. Further, NLFC has failed to present any evidence to show that Devcom has marketed, sold or even offered to sell copies of NLFC 's software; accordingly, NLFC has not shown that it can establish an amount in controversy sufficient to maintain diversity jurisdiction. Finally, since NLFC's federal copyright claim should be dismissed, and there is no basis for diversity jurisdiction, the court can and should decline to take jurisdiction of the pendent state law claims (Counts II-IV).

Respectfully submitted,
/s/ RONALD A. GUZMÁN
United States Magistrate Judge

DATE: NOVEMBER 16, 1993

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